



Accounts Receivable Insurance

ASSURart^{INC}
L'ART D'ASSURER | THE ART OF INSURING



Accounts Receivable Insurance



Accounts Receivable Insurance

What is Accounts Receivable Insurance?

Accounts Receivable Insurance Market in
Canada

Applications of Accounts Receivable
Insurance

Types of Policies

The Broker's Role



What is Accounts Receivable Insurance?

Accounts receivable insurance provides coverage for commercial bad debts and political risk losses.

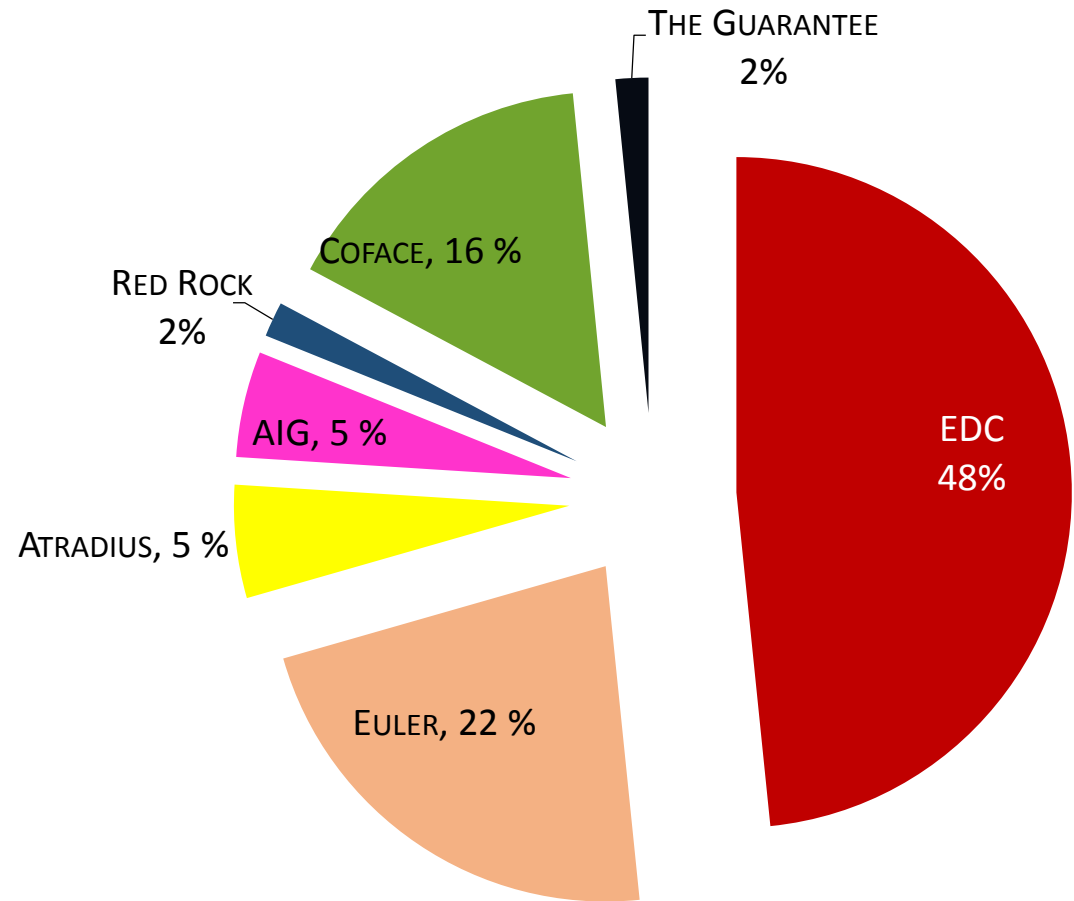
Accounts receivable insurance insures that a policyholder receives payment for products sold or services rendered.

Accounts Receivable Insurance Market

- The Canadian Underwriters



Account Receivable Insurance Market - 2019 Market Share



Data Source: OSFI Direct Written Premium reporting (2014) on Premiums and Claims report for each private sector insurer



Applications of Accounts Receivable Insurance

Enhance Bank Margining

Sales Growth Strategy

Enhance Shareholder Value

Peace of Mind/Corporate
Governance

Applications of Accounts Receivable Insurance

- Enhance Bank Margining

Banks will provide enhanced margining on insured accounts receivable.

Enables company to borrow more money on the same asset base.

Provides additional capital to employ business strategy (expansion, new products, investment in capital goods etc.).

Applications of Accounts Receivable Insurance

- Enhance Bank
Margining

Example

Estimated Annual Sales

\$ 50,000,000

Estimated Domestic A/R

\$ 8,000,000

Estimated Export A/R

\$ 2,000,000

Margining Formula

75% Domestic(North America)

0% Export

Maximum Borrowing Base

\$ 6,000,000

Add Credit Insurance

90% Domestic(North America)

90% Export

New Borrowing Base

\$ 9,000,000 (50% improvemnt)

Cost of AR Insurance (.20% of Sales)

\$ 100,000



Applications of Accounts Receivable Insurance - Sales Growth

Enables the company to expand into new markets, or extend more credit to existing customers.

Results in greater sales and corporate growth!

Additional gross profit generated exceeds cost of insurance.

“Insurance pays for itself!”

Applications of Accounts Receivable Insurance

- Enhance Sales
Growth

Example

Estimated Annual Sales

\$ 50,000,000

Gross Margin

\$ 7.5%

Estimated Cost of Insurance Including Deductible

\$ 150,000

Incremental Sales Required to Generate Gross Margin to Offset Insurance Expense

\$ 2,000,000

Percentage Sales Increase Required

4%

Insurance Cost as a Percentage of Sales

.30%

Utilizing Accounts Receivable Insurance to grow your customer base should result in sales expansion in excess of 4%.



Applications of Accounts Receivable Insurance

- Enhance
Shareholder Value

Reduces impact of bad debts on income statement and balance sheet.

This preserves retained earnings, protecting the balance sheet and tangible net worth of the company.

Applications of Accounts Receivable Insurance

- Enhance
Shareholder Value

Example

Estimated Annual Sales

\$ 50,000,000

Gross Margin


\$ 7.5%

Bad Debt

\$ 300,000

Incremental Sales Required to Recoup Loss

\$ 4,000,000

- 
- Can the company generate the incremental sales easily?
 - Accounts Receivable Insurance would indemnify 90% of the loss.
 - Incremental sales to recoup 10% of loss = \$ 400,000



Applications of Accounts Receivable Insurance

- Peace of
Mind/Corporate
Governance

- Enables public companies to quantify the risk of coverage, which they may communicate to their corporate governance committee and shareholders.
- Provides owner/managers of privately owned companies peace of mind that their largest asset on the balance sheet is collectible. Enables them to sleep better at night!



Types of Structures

Single Buyer Coverage

Selective Buyer Coverage

Whole Turnover Coverage

Supplier Financing

Contract Frustration Insurance

EDC Coverage Gap Solutions



Types of Structures - Single Buyer Coverage

Minimum premiums apply for single buyer policies – typically range from \$ 15k-\$ 65K;

Underwriters normally require financial statement disclosure on the buyer;

Coverage is cancellable or non-cancellable depending on the underwriter;

Arranging this coverage on private buyers is challenging;

Request often arises from A/R concentration risk. Bank looking to mitigate this risk with insurance.



Types of Structures

- Selective Buyer Coverage

Private sector like these deals!

Underwriter controls the risk by naming all the buyers to the policy;

Pricing can be aggressive if prospect prepared to provide a pool of risk;

We often recommend this approach when a prospect approaches with a single risk request or wants to carve out a portion of their portfolio to insure.

Types of Structures

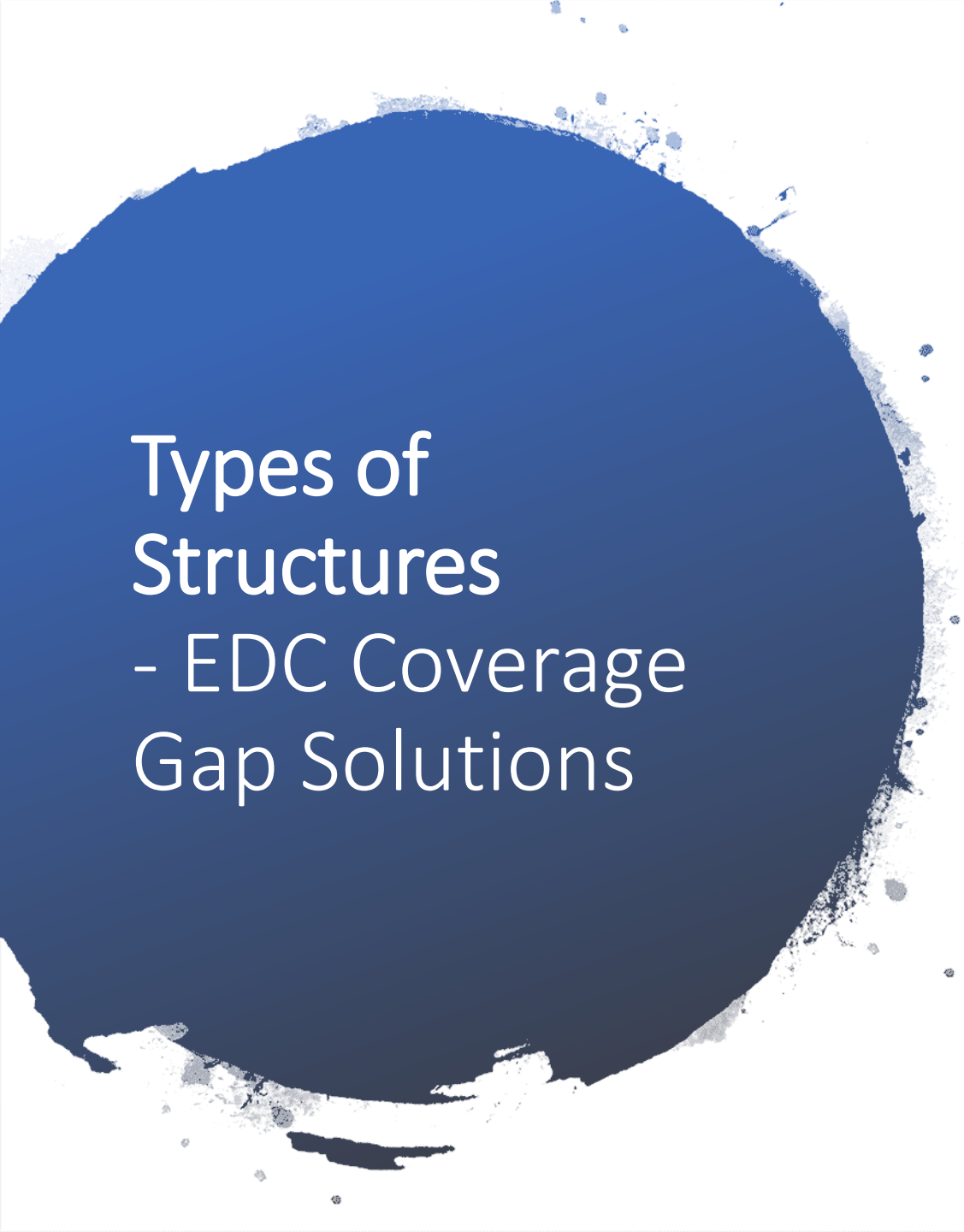
- Whole Turnover Coverage

Insure entire A/R portfolio;

Typically the insurer underwrites the large buyer exposure and gives the client the ability to underwrite the small exposure via a discretionary credit limit (80/20 rule);

Insured may introduce a deductible to reduce premium expense;

Ideal on typical line of credit bank financing transactions.



Types of Structures

- EDC Coverage Gap Solutions

Product applies where a coverage gap exists on an EDC policy.

Private sector underwriters provide a layer of risk on top of the EDC approval.

As an example, Client requires \$ 10 million in coverage. EDC has approved \$ 6 million. Private sector solution bridges the \$ 4 million gap.

This can also be adopted with certain private sector insurers.



The Broker's Role

Understand the client's objective

Understand their Accounts Receivable process

Customize the policy

Explain their responsibilities

Administration of the policy

QUESTIONS?

Hugh L'Anglais
Courtier en assurance de dommages / Damage insurance
broker

ASSURART INC.
2055, rue Peel, Bur. 410
Montréal QC H3A 1V4

T (514) 382-9357 #236 | Sans frais/Toll free : 1 833 382-
9357 # 236

hughlanglais@assurart.com

www.assurart.com